

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 CCO-00 DODE-00 CIAE-00

USSS-00 NSAE-00 /026 W

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R 111355Z OCT 73

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 7874

S E C R E T KUWAIT 3725

EXDIS

ZCMO. 11652: GDS

TAGS: ENRG KU

SUBJECT: OIL EXPROPRIATIONS: US POSITION

REF: STJWE 184017, KUWAIT 3371

SUMMARY: I MAKE APPROACH TO ATEEQI AS INSTRUCTED IN REFTEL. ATEEQI RECONFIRMED GOK ASKING FOR 100 PERCENT OWNERSHIP OF OIL BUT ALSO REEMPHASIZED DESIRE TO CONTINUE LONG-TERM ASSOCIATION WITH GULF AND BP. IN TALK WITH ATEEQI, GULF AND BP REPS WERE SKEPTICAL RE "PREFERENTIAL" PRICES THAT ATEEQI CLAIMED COMPANIES WOULD BE OFFERED UNDER NEW ARRANGEMENTS, AND URGED GOK GO SLOW ON WBAD TO INCREASED OWNERSHIP. COMPANY REPTS PLEASED WITH OUR APPROACH TO ATEEQI AND WELCOMED MY OFFER TAKE SIMILAR LOW KEY LINE WITH OTHER TOP GOK OFFICIALS, ESPECIALLY DOWN PRINCE/PRIME MINISTER. END SUMMARY

1. IN MEETING WITH MINISTER FINANCE AND OPI ATEEQI OCT 10, I CONVEYED TO HIM SUBSTANCE OF OUR NOTE TO LIBYANS ON EXPROPRIATIONS AND ASKED FOR HIS REACTION TO IT. I ADDED THAT WHILE AWARE OF EXCELLENT RELATIONS THAT HAD ALWAYS EXISTED BETWEEN GOK AND OIL COMPANIES IN PAST, USG NATURALLY VERY CONCERNED OVER PRECIPITATE LIBYAN ACTION AGAINST COMPANIES AND ATTACHED GREAT IMPORTANCE TO KUWAIT'S NEGOTIATING DIFFERENCES WITH COMPANIES IN MANNER CONSISTENT WITH GOVERNING AGREEMENTS.

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2. ATEEQI AVOIDED DIRECT COMMENT ON NOTE TO TRIPOLI BUT SAID KUWAIT NOT RPT NOT LIKE LIBYA. TAKING SAME LINE AS IN SEPTEMBER (KUWAIT 3270), HE EMPHASIZED GOK HAD ALWAYS GOOD RELATIONS WITH GULF AND BP AND

DESIRE THAT THIS ASSOCIATION CONTINUE. HOWEVER, NATURE OF ASSOCIATION WOULD HAVE TO CHANGE. ATEEQI REITERATED THAT GOK ASKING FOR 100 PERCENT PARTICIPATION AND COMPENSATION AT NET BOOK VALUE.

ATEEQP EXPLAINED THAT IN ORDER EXPAND OIL PRODUCTION IN COUNTRIES SUCH AS SAUDI ARABIA AND IRAN, LARGE SUMS OF MONEY HAD TO BE SPENT FOR NEW FACILITIES. IN CONTRAST TO ONLY RELATIVELY SMALL EXPENDITURES FOR MAINTENANCE NEEDED IN KUWAIT WHERE OIL FIELDS ALREADY BEING THOROUGHLY EXPLOITED AND PRODUCTION BEING HELD TO THREE MILLION BARRELS PER DAY. THIS WAS IN ADDITION TO FACT THAT OIL COMPANIES HAD RECOVERED THEIR INVESTMENT IN KUWAIT MANY TIMES OVER IN 27 YEARS OF OPERATIONS. WITH ITS RISING POPULATION AND DECREASING OIL RESERVES, KUWAIT NEEDED EVERY DINAR IT COULD EARN.

3. ATEEQI ALSO REITERATED THAT, ALTHOUGH IT HAD MANY OFFERS TO PURCHASE ITS CRUDE, KUWAIT PREFERRED TO SELL OIL MRT NEEDED DOMESTICALLY TO GULF AND BP AT PREFERENTIAL PRICES. ATEEQI SAID GTK WILLING MAKE TEN YEAR DEAL ON THAT BASIS.

4. I TOLD ATEEQI THAT, AS PROMISED, FOREGOING INFORMATION WAS BEING CLOSELY HELD WITHIN USG. HOWEVER, HE SHOULD KNOW OUR STRONG FEELING THAT KUWAIT SHOULD NOT FORCE PACE OF ITS DEMANDS FOR INCREASED PARTICIPATION TO POINT OF MAJOR CONFRONTATION WITH COMPANIES. RESULTANT REPERCUSSIONS WOULD BE BAD FOR EVERYONE INCLUDING KUWAIT. ATEEQI REPLIED GOK DEFINITELY NOT SEEKING CONFRONTATION, BUT HE IN FACT HAD INFORMED GULF AND BP OF GOK'S NEW POSITION ON PARTICIPATION.

5. HAVE JUST SEEN RALSTON OF GULF LONDON AND SUTCLIFFE OF BP WHO HERE ON QUICK AND QUIET VISIT IN CONTEXT ON-GOING DISCUSSIONS WITH ATEEQI RE PARTICIPATION. I BRIEFED THEM ON MY TALKS WITH ATEEQI. RALSTON AND SUTCLIFFE SAID ATEEQI HAD FIRST MENTIONED 100 PERCENT OWNERSHIP TO GULF AND BP IN JULY. IN THEIR MEETING WITH HIM THIS MORNING, THEY SAID, ATEEQI CONTINUED EMPHASIZE GOK DESIRE MAINTAIN CLOSEST FRIENDLY RELATIONS WITH COMPANIES BUT AT SAME TIME PRESSURES GOK UNDER FROM KUWAIT'S VOCIFEROUS AND INCREASINGLY INFLUENTIAL PRO-SECRET

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GRESSIVE ELEMENTS TO DECLARE FULL OWNERSHIP OF KUWAIT'S OIL RESOURCES. COMPANY REPS SAID THEY QUERIED ATEEQI CLOSELY ON REAL MEANING OF "PREFERENTIAL" OIL PRICES, POINTING OUT THAT GOK UNLIKELY BE ABLE STAND UP TO OPPOSITION WHEN, INEVITABLY, IT DEMANDED KNOW WHY GOK NOT SELLING TO HIGHEST BIDDER INSTEAD OF MAKING DEALS WITH FORMER CONCESSIONAIRES WHO WERE NO LONGER NECESSARY TO KUWAIT. COMPANY REPS SAID ATEEQI DID NOT CONTEST THE POINT VERY VIGOROUSLY. RALSTON AND SUTCLIFFE ALSO SAID THEY STRESSED TO ATEEQI NEED TO MOVE FORWARD

IN CALM, MEASURED FASHION; TO GET TOO FAR OUT IN FRONT OF DEVELOPMENTS IN REST OF MODERATE, RESPONSIBLE OIL WORLD WOULD RESULT IN DISLOCATIONS AND PROBLEMS FOR EVERYONE.

6. COMMENT: GOK-GULF-BP TALKS LIKELY INTENSIFY OVER NEXT FEW WEEKS IN ANTICIPATION OF OPENING OF KUWAITI NATIONAL ASSEMBLY AT END OF OCTOBER. ATEEQI TOLD ME HE WANTS NEW DEAL WITH COMPANIES BY END OF CALENDAR YEAR. GULF AND BP REPS EXPRESSED SATISFACTION WITH OUR APPROACH TO ATEEQI WHICH THEY THOUGHT WAS PROPERLY IN LOW KEY. THEY ALSO REACTED POSITIVELY TO MY OFFER TAKE OTHER OCCASIONS, ESPECIALLY WITH CROWN PRINCE/PM JABER AL-AHMAD, TO DISCREETLY URGE GOK PLAY ITS CARDS CAREFULLY ON MAJOR PARTICIPATION ISSUES AND AVOID UNILATERAL ACTIONS THEY COULD BE SORRY FOR LATER.
STOLTZFUS

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 11 MAY 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATIONALIZATION, PETROLEUM INDUSTRY, PETROLEUM PRODUCTS, PETROLEUM PRODUCTION, AGREEMENTS, SALES, MEETINGS, INVESTMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 OCT 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: golinofr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973KUWAIT03725
Document Source: ADS
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: n/a
Film Number: P750018-0322
From: KUWAIT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731065/abqcefsb.tel
Line Count: 121
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ACTION SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: STJWE 184017, KUWAIT 3371
Review Action: RELEASED, APPROVED
Review Authority: golinofr
Review Comment: n/a
Review Content Flags:
Review Date: 02 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02-Jan-2002 by boyleja>; APPROVED <14-Jan-2002 by golinofr>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: OIL EXPROPRIATIONS: US POSITION
TAGS: ENRG, PINT, KU, LY, GULF, BRITISH PETROLEUM, (ATEEQI), (RALSTON), (SUTCLIFFE), (AL-AHMAD, JABER)
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005